

Business Case with Business Sense

ProjectWorld 2010



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Learning Objectives

- At the end of this session, participants will understand
 - The need for an objective, comparable and realistic business case, as the cornerstone for value management
 - That only benefits that can be objectively verified should be monetized, while also considering the impact on soft benefits, alignment and risk
 - That all IT investments cannot be considered equally, and that the type of investment determines the freedom to invest, the level of analysis and rigor required

Value: is there a problem?

- Realizing Value from IT investments is a challenge for most organizations
 - IBM Survey: Fortune 1000 CIOs believe that 40% of all IT spending brought no return to their organizations
 - Gartner Survey: 20% of all expenditures in IT is wasted (\$600 billion globally)
 - Other surveys: between 20% to 70% of large-scale IT investments is wasted

Value: is there a problem?

- If IT projects are not delivering the expected value
 - Benefits in the business case could be overstated
 - Some IT investments are not meant to deliver hard returns
 - Benefits are not managed, so they are missed or not fully realized
 - Projects create opportunities for benefits

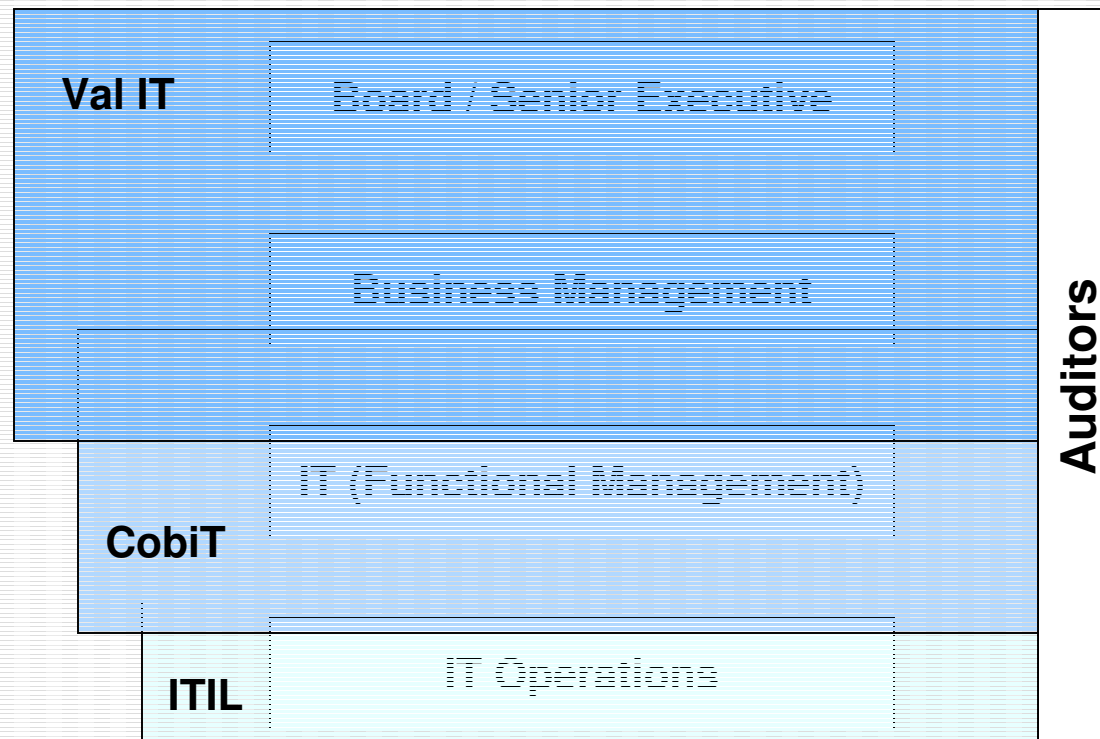
What can we do about it?

- Look at IT investments in a different way
- Start with a realistic business case
- Actively manage benefits

- Val IT provides a framework

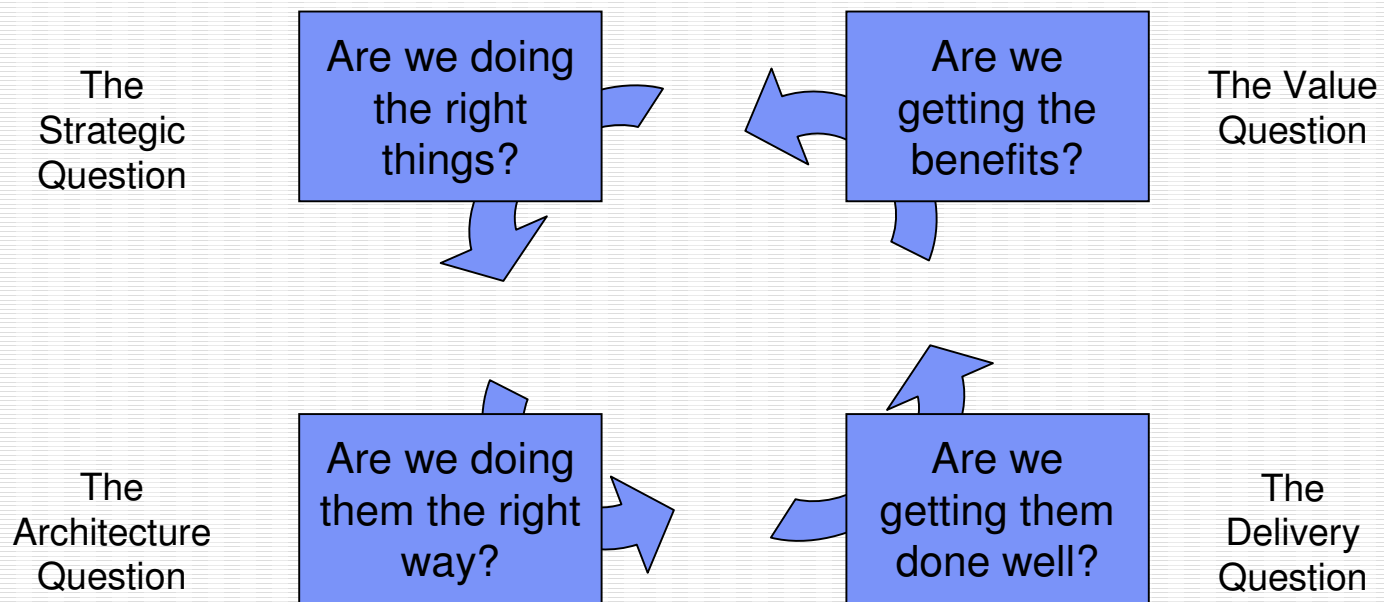
What is Val IT

- Val IT initiative is part of the IT Governance Institute (ITGI)
- Designed to complement with CobiT



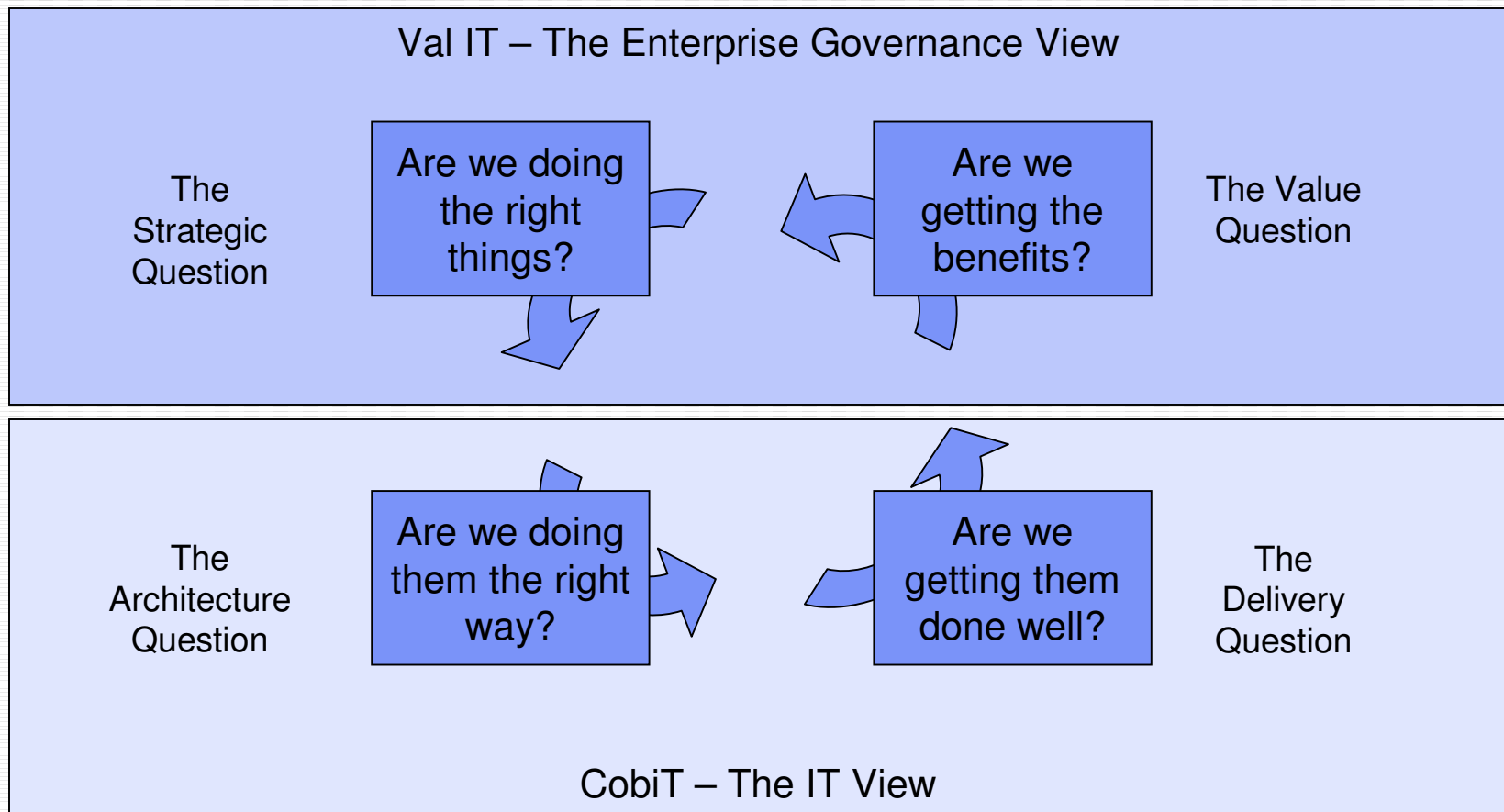
Val IT and CobiT

The fundamental questions: The "Four Ares"



Val IT and CobiT

The fundamental questions: The “Four Ares”



What is Val IT

- Val IT is a governance framework
 - Enables the creation of business value from IT-enabled investments
 - Integrates a set of practical and proven:
 - Governance principles
 - Processes
 - Practices
 - Guidelines
 - More of Val IT in the Appendix

So, what can we do differently?

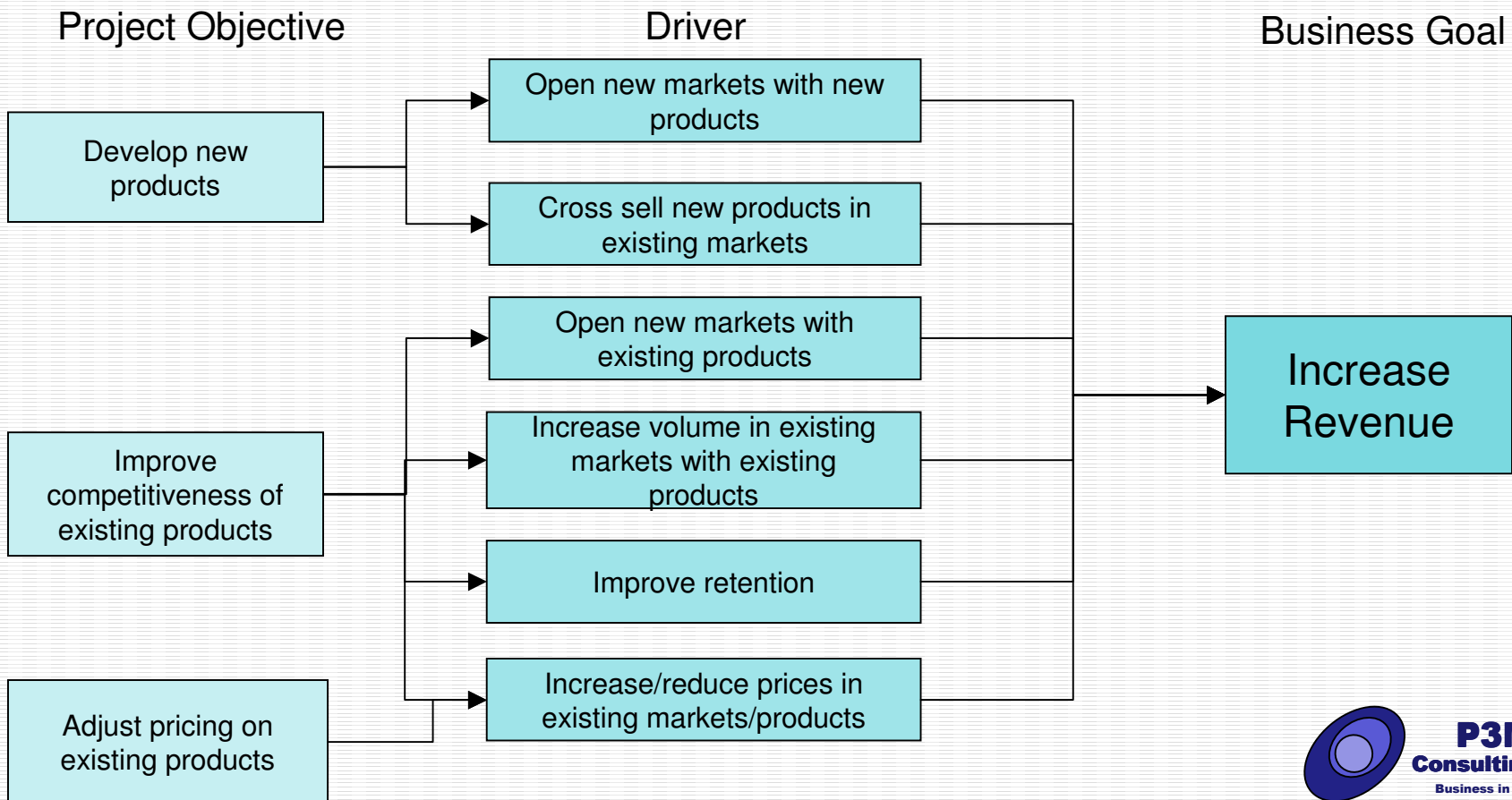
- Map projects to scorecards
- Take a hard look at hard benefits
- Treat different investment types differently
- Consider uncertainty
- Assess value and alignment separately

Map projects to scorecards

- In most for profit organizations the key business goals are:
 - Increase revenue
 - Reduce cost
 - Reduce working capital
- For each goal, there are drivers and metrics
 - To identify drivers, look for those indicators executives and managers track constantly

Map projects to scorecards

- Hard benefits should be tied to drivers



Take a hard look at hard benefits

- Hard benefits should be tied to drivers of value
- Only monetize benefits that are verifiable
 - Clear link to the project
 - Objective verification
 - Generate a cash inflow
- Example: productivity improvement
 - Not a hard benefit
 - Headcount reduction is a hard benefit

Take a hard look at hard benefits

- Standardize formulas for calculation of benefits
- Example: headcount reduction
 - $(\text{Current units/person} - \text{Expected units/person}) \times \text{loaded yearly salary}$
 - Still valid if business grows or contracts
- No place to hide

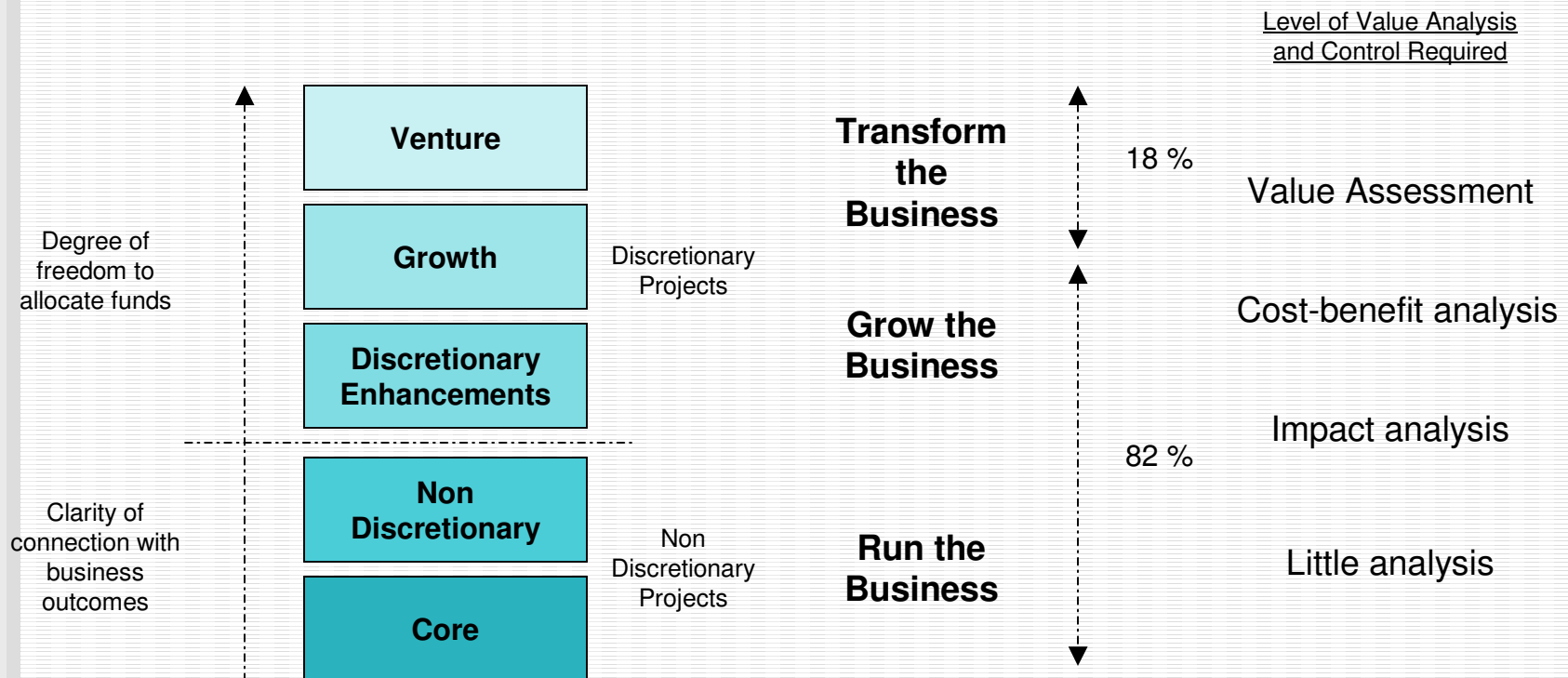
Take a hard look at hard benefits

- Also consider soft benefits
- Assess impact of projects against a standard list of soft benefits
 - Improve productivity
 - Improve customer experience
 - Improve employee retention
 - Reduce risk from obsolete technology
 - Etc.
- Assessment of soft benefits will always be subjective, but it can still be useful

Treat different investment types differently

- What investments do for the business...
 - Run the business
 - Grow the business
 - Transform the business
- Determines
 - Freedom to invest
 - Level of analysis and control required

Treat different investment types differently



Source: Cora Group

Treat different investment types differently

- Example of Guidelines for project approval
 - A venture type project should have a strong hard return (above a higher hurdle rate)
 - Infrastructure projects to support future growth could be approved on soft benefits only
 - They lay the foundation for future projects to realize hard benefits
- Different investment types should be the basis for true portfolio management

Consider uncertainty

- Delivery risk
- Benefits risk
- Quality of estimate of investment

Consider uncertainty

- A project with high delivery risk will likely
 - Take longer, deferring benefits
 - Cost more
- Benefits risk
 - Each benefit should be assessed in terms of likelihood of realizing the benefit
 - Stream of inflows should be adjusted based on this likelihood

Consider uncertainty

- Quality of the estimate of investment
 - Should be used to run scenarios
 - A project with high freedom to invest should have a pessimistic scenario above the hurdle rate

Assess value and alignment separately

- Value and alignment are completely independent of each other
- Alignment should be assessed objectively
 - Against specific strategies
 - Assess the impact of the project: how it supports the implementation of each strategy

A solid business case

- Presents relevant information for decision making
- Sets the foundation for management of benefits

Result of the business case

- Present to decision makers
 - Financial indicators, based on hard benefits VS investment
 - NPV and NPV as a % of investment
 - IRR
 - Soft benefits
 - Alignment
 - Risk
- Let decision makers decide

Conclusions

- Realization of benefits will not happen by chance
- Specific things we can do
 - Treat investments differently
 - Start with a solid business case
 - Be realistic estimating hard benefits
 - Consider soft benefits
 - Consider uncertainty
 - Actively manage benefits

Conclusions

- In today's world
 - Delivery of the project scope is a given
 - Delivery of value is the true measure of success

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Appendices

- Val IT
 - Concepts
 - Principles
 - Terminology for P3
 - Domains
 - Processes
 - Relationships

What is Val IT?

- The Concept of Value
 - Total life cycle benefits net of related costs, adjusted for risk and for the time value of money
 - Relationship between meeting the expectations of stakeholders and the resources to do so
 - Value Management enables an enterprise to
 - Clearly define what constitutes value, and to whom
 - Select and execute investments
 - Manage its assets with an affordable use of resources and an acceptable level of risk

What is Val IT

- Val IT supports the enterprise goal of creating value from IT-enabled investments
- Key underlying insights
 - IT is not an end to itself, but a means of enabling business outcomes
 - IT is not about implementing technology. It is about unlocking value through IT-enabled organizational change

Val IT: Principles

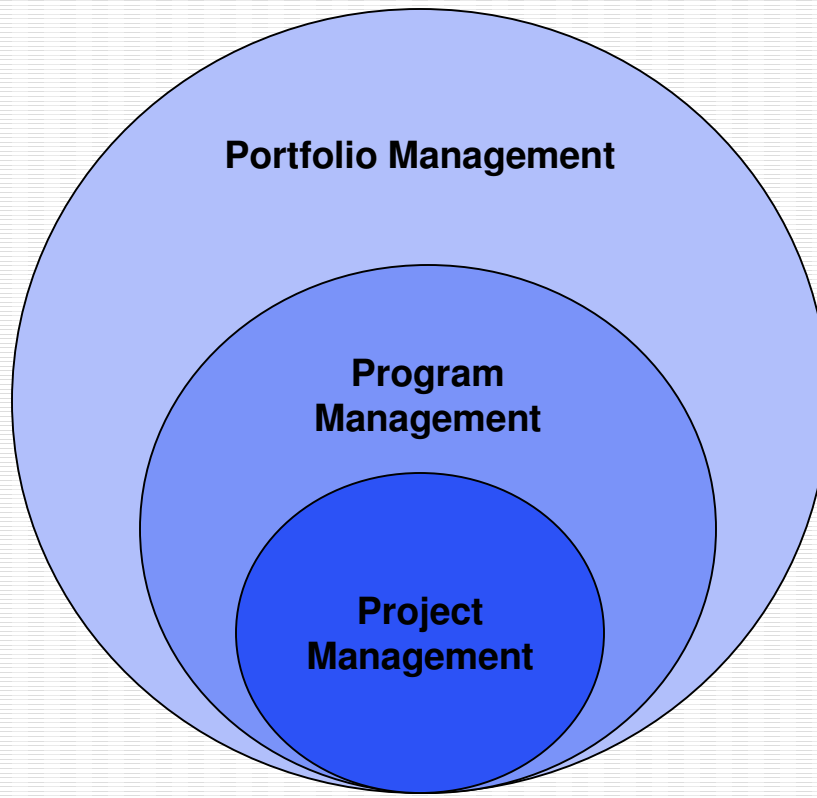
- IT-enabled investments will:
 - Be managed as a portfolio of investments
 - Include the full scope of activities required to achieve business value
 - Be managed through their full economic life cycle

Val IT: Principles

- Value delivery practices will:
 - Recognize there are different categories of investments that will be evaluated and managed differently
 - Define and monitor key metrics and respond quickly to any changes or deviations
 - Engage all stakeholders and assign appropriate accountability for the delivery of capabilities and the realization of benefits
 - Be continually monitored, evaluated and improved

Val IT: Terminology

Projects, Programs and Portfolios



Portfolio: Managed to optimize overall enterprise value

Program: Designed to produce clearly identified business value

Project: Concerned with delivering a defined capability

Val IT: Domains

- Val IT Domains and their goals
 - Value Governance (VG)
 - Ensure that value management practices are embedded in the enterprise
 - Portfolio Management (PM)
 - Ensure that an enterprise secures optimal value across its portfolio
 - Investment Management (IM)
 - Ensure that the enterprise's individual IT-enabled investments contribute to optimal value

Val IT: Domains and Processes

Value Governance (VG)	Establish informed and committed leadership	Define and implement processes	Define portfolio characteristics	
	Align and integrate value management with enterprise financial planning	Establish effective governance monitoring	Continuously improve value management practices	
Portfolio Management (PM)	Establish strategic direction and target investment mix	Determine the availability and sources of funds	Manage the availability of human resources	
	Evaluate and select programs to fund	Monitor and report on investment portfolio performance	Optimize investment portfolio performance	
Investment Management (IM)	Develop and evaluate the initial program business case	Understand the candidate program and implementation options	Develop the program plan	Develop full life-cycle costs and benefits
		Develop the detailed candidate program business case	Launch and manage the program	Update operational IT portfolios
		Update the business case	Monitor and report on the program	Retire the program

Relationship: Val IT Domains and Processes

